PRINCE EDWARD ISLAND BUSINESS DEVELOPMENT

ANNUAL REPORT **2001**

Mandate

Prince Edward Island Business Development (PEIBD) leads the business development effort for the province. Its role is central and critical to government's overall objective of advancing sound business development initiatives.

Prince Edward Island Business Development provides leadership in the implementation and support of economic development and assists in the establishment and maintenance of profitable and wealth-creating businesses in Prince Edward Island. The corporation solicits and supports investment, creating jobs and wealth for Prince Edward Island; actively supports small business; encourages entrepreneurship and investment risk sharing; and actively promotes PEI as a competitive place to do business.

Prince Edward Island Business Development has the lead role in attracting new businesses and prospective business partners to the province. As well, the corporation directs the trade development and export initiatives of the province.

Prince Edward Island Business Development Board of Directors

as of March 31, 2001

Honourable Michael F. Currie, Chair
Mr. Jim Johnston, Co-Chair
Mr. Michael O'Brien
Ms. Martina MacDonald
Ms. Nora Dorgan

Message of the Chief Executive Officer

Honourable Michael F. Currie
Minister of Development & Technology
PO Box 2000
Charlottetown, PE
C1A 7N8

Dear Minister:

I respectfully submit Prince Edward Island Business Development's Annual Report for the fiscal year ending March 31, 2001.

The past year has seen many exciting developments as our organization strives to advance sound business initiatives in PEI. Our staff continues to work with numerous clients and, as Chief Executive Officer, it is my responsibility to ensure these dealings encourage a positive economic climate for our province.

Working closely with our federal government partners is an important component of the development mix as together we endeavour to meet the needs of Island businesses.

Meaningful employment for Islanders is a positive spin-off from a strongly developing economy, and this past year has seen an increase in employment in our province. Such growth is partially due to the skilled jobs being created in emerging sectors such as aerospace, food processing and diversified manufacturing. Furthermore, trade initiatives continue to breed success for Island firms, creating more jobs for Islanders as companies respond to the strong international demand for their products.

Opportunities abound for business in PEI, both in the global marketplace and here at home. Prince Edward Island Business Development will continue to work with Island businesses to recognize these opportunities and capitalize on the possibilities.

Sincerely,

R. Kent Scales
Chief Executive Officer

103-00739/

Staffing Summary

Division Staff Corporation Management	5
Business Expansion	9
Aerospace	1
Food and Life Sciences	5
Marketing	5
Trade and Export Development	4
Asset Management	5
Finance and Administration	9
TOTAL	**43**

Year in Review

This year has marked another strong economic posting for the province of Prince Edward Island. For the third consecutive year, PEI has achieved sustainable growth due, in part, to the provincial government's commitment to business development and expansion on the Island. As the lead economic development agency for the province, Prince Edward Island Business Development takes an active role in stimulating development and fostering growth.

Various PEIBD initiatives strive to create meaningful employment within the province. Encouraged by the strong 5.9 per cent employment growth in 2000, PEIBD continues to focus on programs that secure jobs for Islanders.

With steady growth in the emerging sectors of aerospace, information technology, diversified manufacturing and life sciences, much of the employment being created is helping to strengthen PEI's labour market. Last year not only saw a drop in the provincial unemployment rate, but also an increase of 4.4 per cent in the per capita personal income of Islanders. In efforts to continue this trend, PEIBD is committed to encouraging growth in these key sectors. Attracting two new aerospace firms to Slemon Park and announcing the Aerospace Scholarship program were highlights of the 2000-2001 fiscal year which are strong indicators of this commitment.

Concentrated efforts on trade and export development is also building the labour force in PEI. New contracts in international markets are increasing both production and employment in Island businesses. In 2000, PEI's export sales reach a new high at $690 million, an increase of 20 per cent over 1999.

As always, small business remains a high priority for PEIBD. Initiatives offering assistance in marketing, self employment, business counselling and information technology are among those advancing the small business community in our province. One program alone, the Small Business Employee Support Program, created 224 new positions within Island businesses this fiscal year.

Also helping to build business in the province is PEIBD's commitment to developing "business-ready" infrastructure across PEI. New business park growth at the Charlottetown Airport, the town of Stratford and in Bloomfield, are the first in a series of developments which will attract private sector investment throughout PEI, creating business growth and employment.

As PEIBD studies the trends and developments that will shape the future of our provincial economy, it will continue to support and enhance the traditional sectors that have long been the backbone of our Island. PEIBD believes that this combination of emerging sectors and traditional industries will drive the economic momentum growing in our province.

Bilan de L'année

Encore une fois cette année, l'Île-du-Prince-Édouard a fait très bonne figure au plan économique. En effet, pour la troisième année consécutive, l'Î.-P.-É. a réalisé une croissance durable qui est due en partie à l'engagement du gouvernement provincial envers le développement et l'expansion des affaires de l'Île. À titre d'organisme chef de file du développement économique de la province, Expansion des affaires de l'Île-du-Prince-Édouard (EAÎPÉ) joue un rôle actif pour stimuler le développement et encourager la croissance.

Diverses initiatives de EAÎPÉ tentent de créer de l'emploi constructif dans la province. Encouragée par le fort pourcentage de croissance (5,9 %) en 2000, EAÎPÉ continue de concentrer ses efforts sur des programmes qui procurent des emplois aux Insulaires.

Grâce à une croissance soutenue dans les secteurs de pointe de l'industrie aérospatiale, de la technologie de l'information, des industries manufacturières diversifiées et des sciences de la vie, bien des emplois créés ont aidé à renforcer le marché du travail de l'Î.-P.-É. De plus, non seulement le taux de chômage a-t-il connu une légère baisse l'an dernier, mais le revenu personnel par habitant des Insulaires a aussi augmenté de 4,4 pour cent. Ainsi, dans ses efforts pour maintenir la tendance, EAÎPÉ s'est engagée à encourager la croissance dans les secteurs clés ci-dessus. Dans ce sens, le fait d'avoir attiré deux nouvelles entreprises aérospatiales au parc Slemon et d'avoir annoncé le programme de bourses d'études en aérospatial ont été les points saillants de l'exercice financier 2000-2001.

Les efforts conjugués dans le développement du commerce et des exportations font progresser la main-d'œuvre de l'Î.-P.-É. De nouveaux contrats au niveau des marchés internationaux augmentent tant la production que l'emploi dans les entreprises de l'Île. En 2000, les ventes à l'exportation de l'Î.-P.-É. ont atteint un nouveau sommet de 690 millions de dollars, une augmentation de 20 pour cent par rapport à 1999.

Comme toujours, les petites et moyennes entreprises demeurent une grande priorité pour EAÎPÉ. Les initiatives offrant de l'aide en commercialisation, en travail indépendant, en planification d'entreprise et en technologie de l'information sont parmi celles qui font progresser la communauté des petites entreprises dans notre province. Un programme à lui seul, le Small Business Employee Support Program, a permis de créer 224 nouveaux postes au sein des entreprises de l'Île au cours du présent exercice financier.

L'engagement de EAÎPÉ à développer partout dans l'Île une infrastructure « prête à accueillir les entreprises » a également contribué à la création d'entreprises. L'essor des nouveaux parcs commerciaux de l'aéroport de Charlottetown, de la ville de Stratford et de Bloomfield est la première étape d'une série de développements qui attireront des investissements du secteur privé partout à l'Î.-P.-É., créant ainsi une expansion des entreprises et de l'emploi.

En même temps que EAÎPÉ étudie les tendances et les développements qui façonneront l'avenir de notre économie provinciale, elle continuera à soutenir et à renforcer les secteurs traditionnels qui sont depuis longtemps le pilier de notre Île. EAÎPÉ croit que ce mélange entre les secteurs de pointe et les industries traditionnelles ne cessera de faire croître le dynamisme économique de notre province.

DIVISIONAL REPORTS

Aerospace

Roger E. Coffin, DIRECTOR

The attraction of two new aerospace firms, **CAE Inc.** and **Helipro Airframe Group,** to Slemon Park highlighted the 2000-2001 year for aerospace development in Prince Edward Island.

CAE Inc., the world's premier provider of simulation and control technologies for training and optimisation solutions, has located an engineering unit in Slemon Park, employing engineers and software specialists.

Helipro Airframe Group, a world leader in helicopter repair and overhaul has also committed to growing their operation on the Island. Helipro hired eleven Islanders who are currently training in Richmond, BC and will be stationed back in PEI by early 2002.

The PEI aerospace industry continues to grow at approximately 20 per cent per year and shows no signs of slowing down as the existing five aerospace firms continue to grow and create employment:

- **Atlantic Turbines International (ATI)** commissioned their second engine line this past year, the Pratt and Whitney PT6-A series. This resulted in 70 new positions, with the potential for 50 additional jobs as ATI's market share increases.
- **Honeywell** has forecasted a sales increase of 25 percent, accompanied by additions to its staff.
- **Testori Americas** has an order book of approximately $50 million and will be adding staff as its new program reaches the production stage.
- **Weibel Aerospace (1995 Ltd.)** recently ordered new equipment to meet increased demand for landing gear products, notably Bombardier CRJ 200.
- **Tube-Fab Technologies** is also experiencing record sales and growth.

Holland College's **Aerospace and Industrial Technology Centre** is adding new programs in response to industry demand for newly skilled employees such as the Aircraft Structures Technician Program, the Gas Turbine Technician Program and a Fuel Control Technician Program. In May 2000, the Province announced its commitment to the Aerospace Scholarship and Bursary program, matching the combined commitment of $100,000 made by private businesses within the aerospace sector.

Asset Management

John Hughes, DIRECTOR

The Asset Management Division is responsible for the efficient administration and strategic development of real property investment assets owned by Prince Edward Island Business Development. The property portfolio includes mature industrial parks in West Royalty and Summerside, along with the Food Park in Souris and Gateway Village in Borden-Carleton, the region's premier tourism and retail park.

A priority for 2000-2001 was to work with municipal, federal and private sector partners to broaden the range of "business-ready" infrastructure in regions across the province. The past year has seen new business park developments at the Charlottetown Airport, the Town of Stratford and in Bloomfield. Planning continues for developments in the Town of Cornwall, Borden-Carleton and Central Kings with the goal of establishing a province-wide network of business parks in close proximity to local labour pools and conducive to attracting private sector investment throughout PEI.

New construction to accommodate expansions of existing Island firms such as Watts Communications, On-Line Support, Atlantech Engineering and Framatone Connectors was further supplemented by demand from new businesses coming to the province, such as Fortius Canada Inc, Island Critical Care, Clipper Services and Fibre Connections.

To enhance the strategic development value of the property portfolio, the Asset Management Division continually liquidates mature properties to private sector investors and re-invests in new projects designed to attract wealth-creating investment to Prince Edward Island.

Business Expansion

Lori Pendleton, DIRECTOR

The Business Expansion Division supports small businesses through counselling, financial assistance, business guidance and entrepreneur education. Assistance is also provided through various projects including the following which were initiated in the 2000/2001 fiscal period:

- The **Small Business Employee Support Program,** a joint initiative with Human Resources Development Canada, created 224 new employment positions with Island businesses in this fiscal period, providing a retention rate of 73 per cent for individuals placed under the program.

- Two IT initiatives were piloted to help Island companies in accessing worldwide markets. The **Web Presence Program** provides assistance to companies establishing basic information to the internet community and the **E-Commerce for Trade Program** focuses on completing sales transactions over the Internet. To date, a combined total of 248 applications were approved through these programs. As a result of this strong interest, both initiatives are now included as eligible activities under the Small Business Marketing Program.

- The **Self Employment Assistance Benefit** initiative provides a streamlined delivery process of HRDC and PEIBD programs, providing better service to the business community. Developed in 1999, this pilot project has been extended and is now providing a more comprehensive service to clients of both agencies.

- A series of 16 **Community Information Sessions** were held across the Island in the spring of 2000 to increase awareness at the community level about the assistance available to start up and expand businesses. These information sessions were well received and will be revisited for the Spring of 2001.

The Province continues to provide cost-shared assistance for new business start-ups, capital expansion projects and a host of marketing assistance projects. PEIBD has also participated in several initiatives to support the growth of the indigenous [illegible]ry in all sectors of the province.

Food and Life Sciences

Alex Rogers, DIRECTOR

With over 100 development projects representing a combination of marketing activities, capital expansions and strategic infrastructure investments, 2000-2001 was a very productive year for the Food & Life Sciences Division. While only a few of these projects were related to life sciences (9), work continues in the implementation of a Life Sciences Strategy designed to coordinate and focus research and development (R&D) efforts and identify priority areas for the development of this sector.

Some of the company-specific highlights of the past year included:

- **Small Fry Snack Foods** acquired **Humpty Dumpty US**. The newly expanded Summerside facility, now operating as Humpty Dumpty, created 40 jobs at the Slemon Park plant.

- **Atlantic Fish Specialties** acquired **Horton's Downeast Foods** of Maine and moved production to Charlottetown, adding up to 60 new jobs.

- A new **state-of-the-art seafood processing facility** valued at $3.5 million was completed at **North Lake**, securing seasonal employment for 200 in the rural community. The facility will focus on traditional lobster processing as well as continued expansion into value-added products from under-utilized species.

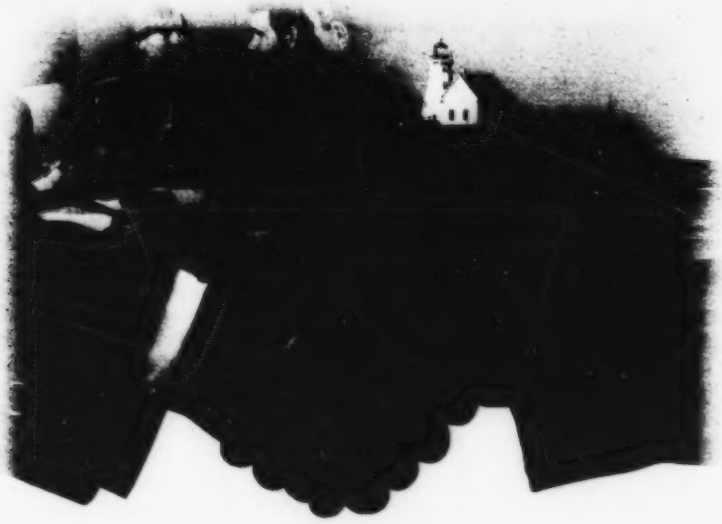
- **Fortius Canada Inc.** relocated from Calgary and is investing $2.25 million to establish a nutraceutical production plant at the Charlottetown Airport Business Park. This will not only create 30 jobs, but will also expand the R&D activities at the Atlantic Veterinary College.

- **DCL Bio-Vectra** announced the expansion of its operations - a new $8 million facility at the Charlottetown Airport Business Park which will focus on bio-extractives for global markets.

- **Island Critical Care** established a new plant at the Stratford Business Park to manufacture a proprietary medical device, creating 10 management positions and the potential for more employment as sales increase.

Numerous smaller projects this year involved the following companies:

Tender Loving Corn, Conner Farms North, Naturally PEI Health Products Ltd, Johnston's Homestyle Products Ltd, Beach Point Specialty Foods, Island Quality Vegetables, Busch Food Technologies Inc, North East Biological Processors, Omegga Holdings and the PEI Maple Syrup Company.



Marketing Division

Brad Mix, DIRECTOR

Over the past year, the Marketing Division has concentrated on generating additional revenue for PEI-based business, as well as supporting initiatives to increase awareness of the province as an investment location. In addition to providing numerous companies with marketing support, the division has taken on several initiatives including:

- Representatives from Prince Edward Island Business Development, Atlantic Canada Opportunities Agency, the University of Prince Edward Island and the cities of Summerside and Charlottetown held **Business Networking Receptions** in Vancouver, Calgary, Toronto and Boston, meeting with 190 guests to promote PEI as an investment location.

- A promotional radio and product campaign was developed to increase awareness of Island-made products to both residents and visitors. The **Buy P.E.I. Cruiser** campaign is scheduled to feature products from 53 craft and food companies and highlight 34 retail locations throughout the summer of 2001.

- A **Brand Showcase** was developed to display product and marketing material to the 550,000 visitors at Gateway Village during the summer months. The 15 Island companies participating in the Brand Showcase anticipate direct sales to result, especially with specialty wood manufacturers and food processors.

- The **Craft & Giftware Buyers Market** featured 63 Island craft and giftware companies exhibiting to over 160 retail buyers. The event generated an additional $200,000 worth of wholesale business over two days.

Over the next year, the Marketing Division will continue to work with craft and giftware producers in the province to increase business development in the sector as well as provide marketing support to companies across Prince Edward Island.

Trade and Export Development

Stephen Murray, DIRECTOR

Assisting PEI companies in becoming export-ready and increasing the revenues Island businesses generate from export sales, are the primary focus of PEIBD's Trade & Export Development Division. In the 2000/2001 fiscal year, the division provided assistance to 94 Island companies by means of developing or expanding their export business.

The division also puts considerable emphasis on growing and strengthening **Trade Team PEI**, which brings together federal and provincial departments and agencies interested in trade development. This past year, Trade Team PEI organized and sponsored several trade-related events including six training activities for first-time exporters.

Trade missions to lucrative markets are a key component of building trade for Island companies. Mission highlights of the past fiscal year saw critical contacts being made which will lead to more work and more jobs for Island companies:

- **New England** is a key market for trade with our province. In February 2001, 10 PEI companies ranging from food processors to wood manufacturers participated in a trade mission to this region. Sales figures are reported at $19.7 million.

- Eight Island businesses joined the Trade Team PEI mission to the **lucrative Chilean market** in December 2000. Reported sales from this event are estimated at $1.9 million.

- In September 2000, a trade mission to **Iceland** saw 10 Island companies from various sectors find success in this developing export market. Sales resulting from this mission are reported at $1.3 million.

As more emphasis is placed on developing exporting opportunities for PEI companies in new markets, the province is seeing a steady increase in export revenues. For example, export sales have increased from $575 million in 1999 to $690 million in 2000.

Testimonials

"PEIBD has assisted us in achieving our international objectives. As a result of our international marketing campaign, we have been able to sign agreements with three schools in Chile and are collaborating with schools in Iceland, Poland, Ireland, USA, UK, and Japan."

Dick MacDonald
Atlantic Tourism & Hospitality Institute

"I was considering a couple of possible locations for our business. After speaking with PEI Business Development and finalizing a deal through the Equity Investment Fund and Interest Buy-Down Program within just 48 hours, I decided to locate in Prince Edward Island."

Dennis Aresnault
Cardinal Packaging

"CMP's export sales have grown substantially - at least 30 percent over the last few years. The success that the company has experienced in international markets can be attributed to the knowledge and experience that we have acquired while participating in trade events with the PEIBD Trade and Export staff."

Wendell MacDonald
Charlottetown Metal Products

"PEI Business Development has helped us with financing capital expansions and acquiring new machinery. They have been tremendously helpful in assisting our projects."

Brian Smith
Embers Specialty Sauces

"It was during a trade mission to Boston with PEI Business Development that I found my sales agent. They were a big help with getting across the border and meeting the people I needed to grow my business."

Lou Gallant
Lou-Mar Mouldings

"PEIBD has helped us in numerous ways and they take great initiative in helping craft producers market their products. Our sales have doubled since last year so there's no doubt that the assistance that we got through the marketing division, trade shows and studio tour program have been helpful in promoting our products."

Dianne Schurman
Malpeque Fine Irons

APPROVED FINANCIAL INCENTIVES TO ESTABLISH OR EXPAND

Island Businesses and Developmental Organizations

In Fiscal Year Ended March 31, 2001

ECONOMIC SECTOR	2001		2000	
	No.	**Amount**	**No.**	**Amount**
Aerospace	14	14,449,836	13	2,947,070
Biotechnology & Pharmaceuticals	10	242,239	9	358,715
Craft & Giftware	59	746,770	0	0
Cultural Industries	3	45,478	0	0
Food - Agriculture	101	2,090,331	78	7,960,081
Food - Fisheries	67	6,726,791	57	8,965,632
General	74	1,044,989	24	217,123
Service	229	4,718,891	232	1,708,996
Film	18	1,267,131	24	1,783,177
Information Technology & Communications	107	4,613,563	54	4,475,464
Manufacturing	292	9,256,366	306	2,817,884
Tourism	45	2,223,123	61	2,400,344
	1,019	47,425,508	858	33,634,486

TYPE OF ASSISTANCE				
	No.	**Amount**	**No.**	**Amount**
Industrial Mall	14	187,677	20	227,567
Rental Incentive	15	269,270	0	0
E-Commerce	16	238,516	8	72,800
Equity Investors Incentive	17	958,340	22	1,177,750
Enterprise Development Fund/Enterprise Assistance	76	1,590,342	68	965,322
Professional Services	130	58,775	101	46,331
Small Business Employee Support	265	1,073,980	230	675,923
New Entrepreneur Loan*	60	1,174,917	80	1,618,525
Venture Capital Loan Program**	7	275,000	3	212,000
Low Interest Loan Program***	35	1,684,812	44	1,177,312
Loan	34	8,503,669	9	5,927,000
Loan Guarantees	11	4,856,000	11	7,160,000
Capital/Micro Business Assistance	72	696,181	78	830,974
Marketing & Trade Assistance	173	1,358,330	138	887,632
Infrastructure Fund/Sectorial Program	73	16,185,609	40	12,129,660
Winter Production Financing	15	111,191	0	0
Small Business Equity Investments	1	37,500	1	150,000
Tax Incentives - Slemon Park	5	8,165,399	5	375,690
	1,019	47,425,508	858	33,634,486

* Repayable loans through participating financial institutions. Interest free for first year only.

** Venture Capital loans of up to $100,000 with interest only payable in the first year following which the investment is amortized over the balance of the approved term in regularly scheduled payments of interest and principal. After the retirement of the investment, PEIBD requires the take out of the common share equity position.

*** Low Interest Loans for which PEIBD pays an annual interest rebate for up to five years applied against term debt held by the PEI Lending Agency.

PEI
PRINCE EDWARD ISLAND BUSINESS DEVELOPMENT

CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2001

July 24, 2001

Auditors' Report

To the Minister of Development and Technology

We have audited the consolidated balance sheet of **Prince Edward Island Business Development Inc.** as at March 31, 2001 and the consolidated statements of revenues and expenditures, deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

CONSOLIDATED BALANCE SHEET

As at March 31, 2001

	2001 $	2000 $
ASSETS		
Current assets		
Cash and short-term investments (note 3)	1,819,226	3,248,974
Accounts receivable (notes 4 and 18)	3,534,849	1,522,351
Grant receivable	420	51,100
Short-term loans receivable (note 5)	5,270,299	2,421,566
Prepaid expenses	10,804	1,958
Inventory (note 4)	1,453,462	399,011
Work in progress	49,700	13,540
Due from the Province of Prince Edward Island – current operations (note 6)	1,627,711	4,669,310
	13,766,471	12,327,810
Due from the Province of Prince Edward Island – provision for possible losses (note 6)	9,944,712	3,494,435
Investment in non-marketable securities (note 7)	9,083,870	7,207,013
Deferred development costs (note 8)	206,945	206,945
Loans receivable (note 5)	5,220,000	2,515,000
Property holdings (note 9)	1,521,587	2,691,046
Capital assets (notes 10 and 18)	12,461,894	13,464,165
Funds held in trust (notes 3, 11 and 18)	10,828,020	16,336,395
Net investment in leases (note 12)	1,007,315	1,007,321
Deferred costs	58,532	-
Assets under capital lease	1,478,814	-
	65,578,160	59,250,130
LIABILITIES		
Current liabilities		
Demand loans	-	2,570,000
Accounts payable and accrued liabilities (note 18)	20,895,110	13,544,807
Deferred revenue	10,012	9,781
Current portion of notes payable and long-term debt (note 13)	9,188,131	1,846,952
	30,093,253	17,971,540
Funds held in trust (notes 11 and 18)	10,828,020	16,336,395
Notes payable and long-term debt, less current portion (note 13)	11,001,956	13,107,588
Deferred credits (note 14)	12,010,205	10,342,293
	63,933,434	57,757,816
Contingencies (note 15)		
SHAREHOLDERS' EQUITY		
Contributed surplus (note 18)	1,786,248	1,786,248
Deficit	(141,522)	(293,934)
	1,644,726	1,492,314
	65,578,160	59,250,130

Approved by the Corporation

MINISTER

CONSOLIDATED STATEMENT OF DEFICIT

For the year ended March 31, 2001

	2001 $	2000 $
Balance – Beginning of year	(293,934)	(312,393)
Excess revenue for the year	152,442	18,849
	(141,492)	(293,544)
Excess revenue repayable to Province of Prince Edward Island (note 6)	(30)	(390)
Balance – End of year	(141,522)	(293,934)

CONSOLIDATED STATEMENT OF REVENUES AND EXPENDITURES

For the year ended March 31, 2001

	2001 $	2000 $
REVENUE		
Grant – Province of P.E.I.	43,779,500	26,074,200
– Other	-	117,766
Interest from borrowers	143,522	51,129
Interest from deposits	121,797	12,617
Property operations	1,555,096	1,214,668
Miscellaneous	9,283	14,100
Project revenues	3,206,930	2,473,462
Retail operations (Schedule)	248,422	223,419
	49,064,550	30,181,361
EXPENDITURES		
Administration	465,622	449,826
Project costs	2,300,684	1,434,064
Corporate management	1,951,697	1,034,138
Asset management	1,562,489	1,294,821
Business expansion activities	674,757	533,382
Food Development	338,388	289,254
New Business Development activities	-	295,121
Trade Development activities	268,741	241,990
Programs	36,425,989	19,991,274
Aerospace	144,283	150,000
Film and new media	98,775	-
Community information technology	126,570	-
Labour force	69,537	-
Policy and planning	83,902	-
Special projects	58,675	-
Marketing services	150,347	-
Charlottetown Civic Centre Inc.	95,000	100,000
Development organizations	3,408,530	3,570,246
Interest on funds borrowed	188,424	90,153
Retail operations (Schedule)	90,052	108,583
Amortization-property holdings and capital assets	1,966,733	2,136,748
Amortization of deferred credits	(1,557,087)	(1,557,088)
	48,912,108	30,162,512
EXCESS REVENUE FOR THE YEAR	152,442	18,849

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended March 31, 2001

	2001 $	2000 $
Cash provided by (used in)		
Operating activities		
Excess revenue for the year	152,442	18,849
Items not affecting cash		
Amortization of deferred credits	(1,557,087)	(1,557,088)
Amortization - property holdings and capital assets	1,966,733	2,136,748
Gain on disposal of property holdings	(194,369)	-
Decrease (increase) in due from the Province of Prince Edward Island - provision for possible losses	(6,450,277)	552,500
	(6,082,558)	1,151,009
Net change in non-cash working capital items		
- decrease (increase) in accounts receivable	(2,012,498)	212,420
- decrease (increase) in grant receivable	50,680	(19,797)
- decrease (increase) in prepaid expenses	(8,846)	31,474
- decrease (increase) in inventory	(1,054,451)	63,142
- increase in work-in-progress	(36,160)	-
- decrease (increase) in due from the Province of P.E.I. - current operations	3,041,569	(3,904,118)
- increase (decrease) in accounts payable and accrued liabilities	7,350,303	5,801,700
- increase (decrease) in deferred revenue	230	(103,949)
	1,248,269	3,231,881
Financing activities		
Increase (decrease) in demand loans	(2,570,000)	2,410,000
Increase in deferred credits	3,225,000	-
Net change in funds held in trust	(5,508,375)	(1,523,948)
Increase (decrease) in notes payable and long-term debt (net)	5,235,547	(3,691,477)
Increase (decrease) in net investment in leases	6	(1)
	382,178	(2,805,426)
Investing activities		
Increase in deferred development costs	-	(206,945)
Purchase of capital assets	(804,108)	(1,165,181)
Additions to and purchases of property holdings	(889,977)	(281,138)
Reductions of and proceeds on disposal of property holdings	2,093,451	151,500
Decrease (increase) in investment in non-marketable securities	(1,876,857)	3,043,501
Increase in loans receivable (net)	(5,553,733)	(4,936,566)
Increase in deferred costs	(58,532)	-
Increase in assets under capital lease	(1,478,814)	-
	(8,568,570)	(3,394,829)
Decrease in cash and short-term investments and funds held in trust	(6,938,123)	(2,968,374)
Cash and short-term investments and funds held in trust – Beginning of year	19,585,369	22,553,743
Cash and short-term investments and funds held in trust – End of year	12,647,246	19,585,369

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2001

1. STATUS OF THE CORPORATION

Prince Edward Island Business Development Inc. is a Crown corporation incorporated under the Prince Edward Island Business Development Inc. Act (formerly Enterprise P.E.I. Act). Its financial results are included in the public accounts of the Province of Prince Edward Island.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with generally accepted accounting principles.

A) GENERAL

These consolidated financial statements include the accounts of the wholly-owned subsidiaries, F.T.C. Enterprises Limited, Environmental Industrial Services Inc., Corporate Services Ltd., Souris Food Park Development Corporation, Gateway Village Development Inc., Solanum - P.E.I., A Canadian Potato Systems Company Inc., Island Products Holding Inc. and Technology Prince Edward Island Inc. all having March 31, 2001 year ends.

B) INVENTORY

Inventory is valued at the lower of cost, determined on the first-in, first-out basis, and net realizable value.

C) DUE FROM THE PROVINCE OF PRINCE EDWARD ISLAND

i) Current operations

Excess revenue for the year for the parent company, Prince Edward Island Business Development Inc., is recorded as an amount due from the Province of Prince Edward Island. Prince Edward Island Business Development Inc. records as revenue the annual budgeted provision for current year's possible losses. The budgeted provision for possible losses is established as part of the normal budget process and is updated to reflect known changes as they become evident during the year. The actual provision recorded in the corporation's accounts is recorded as an amount "Due from (to) the Province of Prince Edward Island - Current Operations" (note 6).

ii) Allowance for possible losses

The annual allowance for possible losses (expense or recovery) is recorded as an amount "Due from the Province of Prince Edward Island - Allowance for Possible Losses". The "Due from Province of Prince Edward Island - Allowance for Possible Losses" is reduced when a write-off is recognized by both Prince Edward Island Business Development Inc. and the Province, with notes payable reduced correspondingly. During the year, Prince Edward Island Business Development Inc. recorded bad debt recovery of nil (2000 - $552,500) and bad debt expense of $6,450,277 (2000 - nil) in the allowance for possible losses. Prince Edward Island Business Development Inc.

D) ALLOWANCE FOR POSSIBLE LOSSES

An allowance is maintained which is considered adequate to absorb all credit and investment related losses and off-balance sheet items including guarantees. The allowance is deducted from the applicable asset on the balance sheet, except for guarantees. The allowance for guarantees is included in accounts payable.

The allowance consists of specific and general provisions.

Specific provisions include the accumulated allowances for losses on particular assets required to reduce the book values to estimated realizable amounts. Specific provisions total $5,729,835 (2000 - $3,361,935). The accumulated allowances for losses on specific off-balance sheet items totalling $4,062,000 (2000 - $482,500) are included in the accounts payable.

The company does not accrue interest on a loan receivable once a specific provision has been recorded against the loan.

The corporation reviews its investments and advances, leased property and property holdings and guarantees on an ongoing basis to assess whether an allowance or write-off is required.

A variety of methods are used to determine the amount expected to be recovered from investments and advances to private companies and property holdings, including estimated future cash flows and the estimated fair value of the underlying security and value of any collateral security taken.

A general provision of $37,600 (2000 - $50,000) includes accumulated allowances for losses which are prudential in nature and cannot be specifically identified. The general provision is based on past performance of similar loans, the level of the specific provision, management's judgement, the economic climate and the maturity and financial strength of the investee.

E) INVESTMENT IN NON-MARKETABLE SECURITIES

Investment in and advances to private companies are recorded on the balance sheet at one-half of cost, under the Small Business Equity Program, except for three preferred share investments. The remaining one-half of these Small Business Equity Program investments are accounted for as a business development expense on the statement of revenue and expenditures in the year the investment is made. Any recovery exceeding the balance in share investment is taken into revenue when received.

The three preferred share investments are being carried at cost or estimated realizable value.

The investments in private companies are either common shares or non-redeemable preferred shares.

Advances - Venture Capital Debt Program are recorded at cost.

Investments in private companies and advances - Venture Capital Debt program are written down to reflect estimated realizable value when an impairment in their carrying value becomes evident or an allowance is established. Write downs are included in business development expense.

It is not practical within constraints of timeliness and cost to determine the fair value of the investment in private companies as these investments are in closely held private companies that have no organized financial market. The estimated realizable value of these investments and advances is based on expected future cash flows.

F) CAPITAL ASSETS AND AMORTIZATION

i) Property holdings

Property holdings are reported at the lower of cost, net of government grants, and estimated realizable value.

Office furniture and equipment and computer equipment are fully expensed in the year of acquisition, except for F.T.C. Enterprises Limited, Gateway Village Development Inc., and Atlantic Technology Centre Inc., a subsidiary of Technology Prince Edward Island Inc., which recorded these items as a capital asset at cost. The amount expensed during the year ended March 31, 2001 was $82,175 (2000 - $127,091). Proceeds on the sale of industrial sites are recorded as a reduction in the carrying value of the asset. Buildings held for resale and industrial malls are amortized using the straight-line method at the annual rates of 7% and 4%.

ii) Capital assets - property for development

Property for development is recorded at cost and will be transferred to a capital asset when the property has been developed or sold if that property is to be developed by a third party. Soft costs related to a property for development will be capitalized and amortized over the estimated life of the project commencing upon completion of the development of the property.

iii) Capital assets - Technology PEI

Design and pre-construction costs associated with the building are recorded as building soft costs. These costs will be capitalized as part of the cost of the building upon completion of construction.

No amortization has been recorded in the period on these capital assets. Assets are under construction and the company is in a pre-operating period prior to the commencement of commercial activities. Amortization of costs related to the building will commence upon completion of construction and amortization of computer hardware, software and furniture and fixtures will commence when the company begins active operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2001

iv) Amortization

Capital assets are amortized using the straight-line method at annual rates ranging from 5% to 50% as indicated in note 10.

A full year's amortization is recorded in the year of acquisition.

v) Estimated realizable value

Estimated realizable value for industrial sites is the expected proceeds on resale and for industrial malls it is the property tax assessed value.

Estimated realizable value for land, buildings and equipment held for resale under lease purchase options is its property tax assessed value.

The reduction from cost to estimated realizable value is recorded as a provision for possible losses.

G) NET INVESTMENT IN LEASES

The company's subsidiaries accumulate costs of constructing assets, that are to be classified as capital leases, as assets under capital lease, and the related grants as deferred credits until the lease term begins. When the lease term begins, the assets under capital lease and deferred credits are removed from the balance sheet and a net investment in leases is recorded. The net investment in leases represents the minimum lease payments receivable over the term of the lease plus the purchase option.

H) DEFERRED COSTS

Certain costs incurred in the pre-operating period of Atlantic Technology Centre Inc., a subsidiary of Technology Prince Edward Island Inc., are deferred and will be amortized when the company begins active operations.

I) PROGRAMS ASSISTANCE PAYABLE

Provincially funded non-cost shared program assistance is expensed and included in accrued liabilities when approved and accepted. Federal-Provincial cost shared programs are expensed when the funds are disbursed.

J) FEDERAL PROGRAMS AND GRANTS

Federal programs

Prince Edward Island Business Development Inc. administers programs on behalf of the Federal Government. Any difference between federal funding received and program expenditures is recorded as an accounts receivable or accounts payable. During the year, Prince Edward Island Business Development Inc. disbursed $1,285,973 (2000 - $1,091,988) under the programs. Included in accounts receivable is $1,006,976 (2000 - $89,987) due from the federal government relating to the 2001 programs.

Included in the program disbursements is $298,590 (2000 - $228,574) in costs related to salary costs of Prince Edward Island Business Development Inc. employees who deliver and administer these programs. This cost recovery has been recorded as a reduction in Prince Edward Island Business Development Inc. salary costs.

Federal grants

Federal government grants received are recorded as a reduction in the related expenditures in the period received. During the year, the company has recorded $409,148 as a reduction of program expenditures for federal grants received.

K) PENSION LIABILITY

Most of the corporation's staff are members of the Province of Prince Edward Island pension plan. Pension obligations are liabilities of the Province and not the corporation and no liability for these costs has been accrued by the corporation.

L) DEFERRED CREDITS

Prince Edward Island Business Development Inc. subsidiaries have adopted the policy that contributions received towards the acquisition of capital assets are being deferred and amortized to income on the same basis as the related capital assets are amortized.

M) REVENUE RECOGNITION

Prince Edward Island Business Development Inc. subsidiaries follow the percentage-of-completion method of accounting for revenue and expenditures on project contracts. The percentage-of-completion method records the organization's revenue based on the expenditures incurred and work completed on each contract in progress as at the balance sheet date.

Work in progress in excess of progress billings is recorded at year end to appropriately recognize revenue under the percentage-of-completion basis of accounting when work in progress is in excess of actual billings generated. Billings generated in excess of the related work in progress at year end are recorded as deferred revenue.

N) INTEREST EXPENSE

Interest paid by Prince Edward Island Business Development Inc. is included as part of the program expense to which it relates. Included in expenses is interest expense for 2001 as follows:

	2001	2000
	$	$
Interest on short-term borrowings	345,021	69,350
Interest on long-term debt	939,373	1,013,432
	1,284,394	1,082,782

O) MANAGEMENT ESTIMATES

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period.

P) ESTIMATED REALIZABLE VALUE OF FINANCIAL INSTRUMENTS

Estimated realizable value (fair value) is subjective in nature requiring a variety of valuation techniques and assumptions. The company's financial instruments are not exchangeable and it is difficult, and often not practical, to determine their estimated realizable value. Where it is possible to estimate realizable value, the company assumes that it will not sell the assets or the liabilities, taking into account only changes in credit risk as credit risk is the main cause of change in the estimated realizable value of the company's financial instruments. Credit risk is defined as the risk that the note holder will fail to discharge an obligation in whole or in part resulting in a financial loss to this company.

3. MARKET VALUE OF INVESTMENTS

Cash and short-term investments and funds held in trust of $12,647,246 (2000 - $19,585,369) consist of portfolio investments and cash having a quoted market value of $12,630,291 (2000 - $19,264,833). The majority of marketable securities have a fixed value and it is expected that most securities will be held until they mature.

4. ACCOUNTS RECEIVABLE AND INVENTORY

The accounts receivable have been reduced by an allowance for possible losses of $192,446 (2000 - $136,341). Inventory has been reduced by an allowance for possible losses of $210,000 (2000 - nil).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2001

5. LOANS RECEIVABLE

	2001 $	2000 $
Short-term loans receivable		
Short-term loans receivable and loans due on demand with various interest rates due within the next fiscal year	8,013,476	2,421,566
Less: Allowance for possible losses	2,743,177	-
	5,270,299	2,421,566
Long-term loans receivable		
4% loan receivable, with interest payable quarterly and principal due on February 1, 2005	2,500,000	2,500,000
9.25% loan receivable, with principal and interest payable monthly beginning September 15, 2000, maturing June 15, 2005	80,000	50,000
7.25% loan receivable, with interest payable semi-annually and principal due on November 10, 2005	200,000	-
8.5% loan receivable, with interest payable semi-annually and principal due on February 15, 2003	55,000	-
7% loan receivable, with principal and interest payable monthly, maturing November 1, 2005	325,000	-
9% loan receivable, with interest payments due monthly beginning May 30,2000 and principal payments due monthly beginning September 30, 2000, due May 1, 2005	70,000	-
4% loan receivable, with interest payable quarterly beginning June 30, 2000 and principal due on May 12, 2005. Sinking fund payments of $125,000 are payable annually beginning May 2001	2,100,000	-
Non-interest bearing note receivable, payable beginning September 30, 2001, in monthly instalments of $750 or 50% of the recipient's monthly revenues whichever is less	20,000	-
9.5% loan receivable, repaid during the year	-	15,000
	5,350,000	2,565,000
Less: Allowance for possible losses	130,000	50,000
	5,220,000	2,515,000

6. DUE FROM THE PROVINCE OF PRINCE EDWARD ISLAND

	2001 $	2000 $
Current operations		
Excess revenue for the year (non-consolidated) repayable to the Province of Prince Edward Island	(30)	(390)
Excess (deficiency) of current year's forecast provision for possible losses over actual provision for possible loss	(6,450,277)	552,500
Operating grant from Province of Prince Edward Island	8,078,018	4,117,200
	1,627,711	4,669,310
Allowance for possible losses		
Balance - beginning of year	3,494,435	4,046,935
Current year's provision for possible losses expense (recovery)	6,450,277	(552,500)
	9,944,712	3,494,435
	11,572,423	8,163,745

7. INVESTMENT IN NON-MARKETABLE SECURITIES

	2001 $	2000 $
Investment in private companies		
Small business equity program investments	3,096,732	3,184,231
Venture capital equity program investments	362,000	262,000
	3,458,732	3,446,231
Less: Allowance for possible losses	1,876,030	1,906,030
	1,582,702	1,540,201
Investment in preferred shares of private corporations	7,114,812	5,434,812
Advances - Venture Capital Debt Program		
Advances to private companies - bearing interest at variable rates, repayable on performance	883,356	1,039,000
Less: Allowance for possible losses	497,000	807,000
	386,356	232,000
	9,083,870	7,207,013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2001

8. DEFERRED DEVELOPMENT COSTS

Net deferred development costs were accumulated from several projects associated with the *Lobster 2000™* development work. The costs consist of two patent applications co-registered in the United States, Canada and Cuba, prototype production test equipment and processes for the extraction of both Canadian and Spiny lobster meat, and various other costs. Management has entered into negotiations with third parties for the sale of the intellectual property rights associated with these projects and consider the potential recovery sufficient to fully recover costs incurred.

Subsequent to March 31, 2001, the company sold the patents, processes and equipment associated with the *Lobster 2000™* development work. Proceeds from the sale consisted of $120,000 in cash, $50,000 in preferred shares and net royalties in the amount of 1.25% of gross income received by the purchaser for the direct sales of the products sold or 12.5% of net licensing fees received by the purchaser for licensing agreements.

9. PROPERTY HOLDINGS

	Cost	Accumulated amortization and grants	2001 Net	2000 Net
	$	$	$	$
Industrial sites	3,310,877	2,938,096	372,781	463,306
Industrial malls	2,806,046	2,806,046	-	424,170
	6,116,923	5,744,142	372,781	887,476
Land, buildings and equipment held for resale or under lease purchase options			1,747,711	2,402,475
			2,120,492	3,289,951
Less: Allowance for possible losses - land, buildings and equipment held for resale			598,905	598,905
			1,521,587	2,691,046

10. CAPITAL ASSETS

	Amortization rate %	Cost $	Accumulated amortization $	2001 Net $	2000 Net $
P.E.I. Enterprises Limited					
Building	5 SL	2,524,959	1,441,510	1,083,449	1,209,696
Pilot plant and laboratory equipment	10 - 20 SL	1,581,176	1,373,108	208,068	83,932
Laboratory supplies	50 SL	120,524	120,524	-	-
Computer and audio visual equipment	33 1/3 SL	446,658	407,732	38,926	54,412
Office furniture and equipment	20 SL	160,856	146,170	14,686	17,386
		4,834,173	3,489,044	1,345,129	1,365,426
Souris Food Fish Development Corporation					
Land		242,898	-	242,898	242,898
Land improvements	8 SL	2,511,881	803,803	1,708,078	1,909,029
Waste treatment - soft costs	8 SL	91,764	22,022	69,742	77,082
- equipment	20 SL	2,909,310	1,745,586	1,163,724	1,745,586
Soft costs	8 SL	1,934,724	619,112	1,315,612	1,470,390
Equipment	20 SL	145,517	116,414	29,103	58,207
		7,836,094	3,306,937	4,529,157	5,503,192
Gateway Village Development Inc.					
Land		1	-	1	1
Building - Phase I	5 SL	3,095,313	593,269	2,502,044	2,656,810
- Phase II	5 SL	1,656,309	248,446	1,407,863	1,490,679
Land improvements - Phase I	10 SL	816,743	313,086	503,657	585,331
- Phase II	10 SL	357,244	106,561	250,683	286,408
Interpretative Centre	20 SL	1,078,080	823,192	254,888	464,698
Retail fixtures - Phase I	20 SL	77,657	57,313	20,344	31,952
- Phase II	20 SL	95,970	55,220	40,750	54,038
Signage	20 SL	12,798	5,119	7,679	10,238
		7,190,115	2,202,206	4,987,909	5,580,155
Environmental Industrial Services Inc.					
Property for development - land		929,085	-	929,085	929,085
Soft costs		86,307	-	86,307	86,307
		1,015,392	-	1,015,392	1,015,392
Technology Prince Edward Island Inc.					
Computer hardware and software		9,274	-	9,274	-
Furniture and fixtures		407	-	407	-
Building soft costs		574,626	-	574,626	-
		584,307	-	584,307	-
		21,460,081	8,998,187	12,461,894	13,464,165

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2001

11. FUNDS HELD IN TRUST

Under the terms of an agreement between Corporate Services Ltd., Prince Edward Island Government Economic Development Fund (No. II) Inc., (Island Fund II), Prince Edward Island Government Economic Development Fund (No. III) Inc., (Island Fund III), Prince Edward Island Government Economic Development Fund (No. IV) Inc., (Island Fund IV), and Prince Edward Island Government Economic Development Fund (No. V) Inc., (Island Fund V), Corporate Services Ltd. is to act as the Escrow Agent for investors of a $30,000,000 venture capital fund offering for each of the funds, except for Island Fund IV which has a $35,000,000 venture capital fund offering.

Corporate Services Ltd. receives the subscription forms from potential investors and holds the funds in trust until the commencement date. The commencement date is to be established within 100 days of receipt of twelve subscriptions. On the commencement date, the Escrow Agent shall:

- Advance to Island Fund II, Island Fund III, Island Fund IV or Island Fund V
  - 70% of subscription proceeds to be reinvested;
  - 10% of subscription proceeds to be used to cover offering and operating costs;

Interest earned on the account while the funds are in escrow is the property of the specific fund.

- Establish a repayment account to retain on deposit the remaining 20% of the subscription proceeds to be invested in a liquid, high-rate investment account for the purpose of refunding rejected investors. Interest earned on the repayment account accrue to the benefit of the specific projects, Island Investment Development Inc., or Island Fund IV or V as applicable, and not Corporate Services Ltd.

12. NET INVESTMENT IN LEASES

The net investment in leases represents the minimum lease payments over the term of the lease plus purchase options receivable. The net investment in leases consists of the following:

Environmental Industrial Services Inc.

Environmental Industrial Services Inc. has entered into agreements to lease its three properties on terms that require these leases to be accounted for as capital leases. In accounting for the capital leases, the capital assets and related deferred credits have been removed and recorded as net investment in leases. The net investment in leases consists of the following:

- McCain Foods Limited - 10 year lease term for the period from February 20, 1991 to December 31, 2000, with the lessee paying all operating costs, an annual lease payment of nil and a purchase option of $20.
- Cavendish Farms - 8-year lease term for the period from January 1, 1994 to December 31, 2001, with the lessee paying all operating costs, an annual lease payment of nil and a purchase option of $10. Both leases have the option to be extended an additional 10 years at the expiration of the lease term at the option of the lessee.
- Small Fry - 9-year lease term for the period from December 22, 1996 to December 31, 2005, with the lessee paying all operating costs, an annual lease payment of nil and a purchase option of $7,260.

Souris Food Park Development Corporation

Souris Food Park Development Corporation has entered into agreements to lease its two properties on terms that require these leases to be accounted for as capital leases. When the company entered into the capital leases for capital property that it owned, the capital assets and related deferred credits were removed and the company recorded a net investment in lease. The net investment in lease represents the minimum lease payments over the term of the lease plus purchase options receivable. The net investment in lease consists of the following:

- AgraWest Investments Ltd. - 5-year lease term for the period from June 16, 1997 to June 15, 2002, $5 per year with a purchase option of $1,000,000.

13. NOTES PAYABLE AND LONG-TERM DEBT

		2001	2000
		$	$
Notes payable	- short-term promissory notes	7,082,500	-
	- long-term	12,207,587	14,009,540
ACOA non-interest bearing loan due February 1, 2006, repayable in annual instalments of $180,000 February 1, 2002 through 2006		900,000	945,000
		20,190,087	14,954,540
Less: Current portion		9,188,131	1,846,952
		11,001,956	13,107,588

Short-term promissory notes are issued to the Province of Prince Edward Island with interest set monthly based on the Province's short-term lending rate in existence at the first day of the month. These notes are renewed on an ongoing basis with interest payable monthly.

The notes payable - long-term are issued to the Province of Prince Edward Island and have various repayment terms and interest rates ranging from 5.53% to 8.50%.

The aggregate amount of principal payments required in each of the next five years to meet retirement provisions is as follows:

	$
Year ending March 31, 2002	9,188,131
2003	1,901,231
2004	1,381,764
2005	1,475,181
2006	1,576,036

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2001

14. DEFERRED CREDITS

	Cost $	Accumulated amortization and grants $	2001 Net $	2000 Net $
F.T.C. Enterprises Limited				
Building	2,349,320	1,366,313	983,007	1,100,473
Pilot plant and laboratory equipment	998,071	998,071	-	-
Computer and audio visual equipment	25,169	25,169	-	-
Office furniture and equipment	53,063	53,063	-	-
	3,425,623	2,442,616	983,007	1,100,473
Souris Food Park Development Corporation				
Federal	7,212,126	3,043,441	4,168,685	5,065,160
Provincial	623,973	263,501	360,472	438,032
	7,836,099	3,306,942	4,529,157	5,503,192
Gateway Village Development Inc.				
Building - Phase I	3,095,313	593,270	2,502,043	2,656,809
Land improvements	816,743	313,084	503,659	585,333
Interpretative Centre	1,072,001	821,867	250,134	464,534
Retail fixtures	73,735	56,530	17,205	31,952
	5,057,792	1,784,751	3,273,041	3,738,628
Environmental Industrial Services Inc.				
Capital lease - construction in progress	2,500,000	-	2,500,000	-
Technology Prince Edward Island Inc.				
Building - soft costs	725,000	-	725,000	-
	19,544,514	7,534,309	12,010,205	10,342,293

15. CONTINGENT LIABILITIES

A) As of March 31, 2001, Prince Edward Island Business Development Inc. was contingently liable under loan guarantees in the amount of $20,863,951 (2000 - $12,046,039) for which Prince Edward Island Business Development Inc. has included $4,362,000 (2000 - $482,500) in its allowance for possible losses. This portion of the allowance for possible losses is recorded as an account payable.

B) F.T.C. Enterprises Limited has guaranteed loans of $25,000 of one of the private corporations in which it has invested.

C) Souris Food Park Development Corporation is contingently liable for property taxes owing of $307,108 by one of its tenants.

16. COMMITMENTS

F.T.C. Enterprises Limited has entered into a twenty-five year lease expiring November 2013 with the University of Prince Edward Island for the lease of land upon which the corporation constructed its facilities. The lease cost is $1 per year and is renewable for a further term of twenty-five years for the same annual consideration.

17. OPERATING AGREEMENTS

Environmental Industrial Services Inc. has agreements with McCain Foods Limited, Irving Pulp & Paper Limited and Small Fry Snack Foods Inc. to operate wastewater treatment facilities until December 2000, 2001 and 2002, respectively, and stipulate that the companies shall pay Environmental Industrial Services Inc. a user fee equal to the operating costs of the facilities excluding interest and amortization charges. The companies pay these operating costs directly and accordingly a user fee has not been charged by Environmental Industrial Services Inc.

Environmental Industrial Services Inc. is responsible for operating the Brudenell Water and Sewer Utility on behalf of the Province of Prince Edward Island. Environmental Industrial Services Inc. pays the operating costs of the Utility and recovers these costs from the users of the utility on a pro-rata basis based on usage.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2001

18. RELATED PARTY TRANSACTIONS

BALANCE SHEET

Accounts receivable
Included in accounts receivable is $561,812 (2000 - $234,727) due from the Province of Prince Edward Island and $23,069 (2000 - nil) due from ISA Inc., a provincial crown corporation.

Funds held in trust
The funds held in trust are due to Island Investment Development Inc., a provincial crown corporation.

Accounts payable
Included in accounts payable and accrued liabilities is $4,795 (2000 - $2,688) payable to Province of Prince Edward Island, $1,603,477 (2000 - $2,296,658) due to Island Investment Development Inc., a Crown Corporation, and $50,984 (2000 - nil) payable to P.E.I. Lending Agency, a Crown Corporation.

Capital assets
The Province of P.E.I. transferred land to Gateway Village Development Inc. in 1997. In accordance with the terms of the transfer, the exchange and carrying amounts of the land was established as $1.

The Department of Public Works of the Province of Prince Edward Island conveys land to the company periodically to be granted to developers under various programs. The exchange and carrying amounts of land when transferred into the company is established as nil.

Deferred credits
During the year Atlantic Technology Centre Inc., a subsidiary of Technology Prince Edward Island Inc., received $725,000 (2000 - nil) from the Province of Prince Edward Island to fund the acquisition of assets. This amount has been recorded as deferred credits.

Contributed surplus
Gateway Village Development Inc. and F.T.C. Enterprises Limited have received $1,786,248 in funds from the Province of Prince Edward Island through Prince Edward Island Business Development Inc. that have been accounted for as contributed surplus. This contribution has not been eliminated on consolidation.

STATEMENT OF REVENUE AND EXPENDITURES

Revenue
Included in grant revenue is a grant of $120,700 (2000 - $357,000) paid to Solanum - PEI, A Canadian Potato Systems Company Inc. from the Province of Prince Edward Island.

Management fees
During the year, management fees of $150,000 (2000 - $150,000) were received from Island Investment Development Inc. and $23,069 (2000 - nil) were received from ISA Inc., a provincial crown corporation. These fees have been recorded as a reduction in administrative expenditures and corporate management expenditures, respectively.

Interest expense
Included in the expenditures is $1,137,041 (2000 - $1,054,846) in interest paid to the Province of Prince Edward Island.

Other
The corporation provides office premises to two other Crown Corporations of the Province of Prince Edward Island, Tourism PEI and Golf Links P.E.I. Inc., for nil consideration. Tourism PEI provided management services to Corporate Services Ltd. for consideration of $5,950 (2000 - $14,100). Tourism PEI is a Crown Corporation of the Province of P.E.I. and Golf Links P.E.I. Inc. is a subsidiary of Tourism PEI.

The above transactions were recorded in the normal course of operations and measured on the same terms as transactions with unrelated parties.

19. COMPARATIVE FIGURES

Certain comparative figures presented for the 2000 fiscal year have been restated to conform with the financial statement presentation adopted for the current year.

SCHEDULE OF RETAIL OPERATIONS

For the year ended March 31, 2001

	2001 $	2000 $
Revenue		
Sales - Island Store	495,626	534,061
- Golf Store	-	16,498
- Consignment sales - net	6,678	4,678
	502,304	555,237
Cost of goods sold		
Island Store	253,882	314,098
Golf Store	-	17,720
	253,882	331,818
Gross margin	248,422	223,419
Expenditures		
Office supplies	1,093	1,013
Electricity, fuel, common area	2,874	3,056
Bank charges and interest	6,791	13,403
Cash overage	(957)	(1,007)
Telecommunications	2,031	1,613
Packaging	3,511	8,053
Advertising and promotion	1,442	1,472
Salaries and benefits	65,291	73,222
Travel and training	5,113	2,497
Dues and fees	725	725
Product development	510	1,579
Maintenance and cleaning	1,628	2,957
	90,052	108,583